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RURAL WATER DISTRICT NO. 3
Beattie, Kansas

Financial Statements
For the fiscal years ended
December 31, 2011 and 2010

Prepared By

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CERTIFIED PUBLIC ACCOUNTANTS
MARYSVILLE, KANSAS 66508

**RURAL WATER DISTRICT NO. 3
MARSHALL COUNTY, KANSAS
Beattie, Kansas**

**FINANCIAL STATEMENTS FOR THE
FISCAL YEARS ENDED DECEMBER 31, 2011 AND 2010**

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Member and Board of Directors
Rural Water District No. 3, Marshall County, Kansas
Beattie, Kansas

We have audited the accompanying financial statements of the Rural Water District No. 3, Beattie, Kansas, as of and for the years ended December 31, 2011 and 2010, and the related statements of activities and cash flows, as listed in the table of contents. These financial statements are the responsibility of the Rural Water District No. 3, Beattie, Kansas', management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Water District No. 3, Beattie, Kansas, as of December 31, 2011 and 2010, and the results of its operations, its changes in fund equity, and its cash flows for the years then ended in conformity with accounting principles general accepted in the United States of America. Further, the Rural Water District No. 3 has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

This report is intended solely for the information and use of the Members, Board of Directors and management of Rural Water District No. 3, Beattie, Kansas, and the Kansas Division of Accounts and Reports, and is not intended to be and should not be used by anyone other than these specified parties.

Kickhaefer & Associate, P.A.

Kickhaefer & Associate, P.A.
Marysville, KS
February 8, 2012

**RURAL WATER DISTRICT NO. 3,
MARSHALL COUNTY, KANSAS**
Beattie, Kansas

Exhibit A
Page 1 of 2

BALANCE SHEETS

| | December 31, | |
|--|---------------------|---------------------|
| | 2011 | 2010 |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (Notes 2 and 3) | \$ 15,027 | \$ 17,867 |
| Certificates of deposit (Note 3) | 415,380 | 458,547 |
| Customer accounts receivable | 23,485 | 22,787 |
| Interest receivable | 309 | 1,588 |
| Prepaid expense | 0 | 0 |
| Inventory | 64,626 | 52,183 |
| Total Current Assets | 518,827 | 552,972 |
| Restricted Assets | | |
| Debt reserve (Notes 3 and 4) | 58,034 | 58,034 |
| Total Restricted Assets | 58,034 | 58,034 |
| Property and Equipment, at Cost | | |
| Water transmission and distribution system | 4,085,795 | 4,076,456 |
| Buildings | 75,651 | 72,130 |
| Equipment | 117,415 | 116,122 |
| | 4,278,861 | 4,264,708 |
| Deduct accumulated depreciation | 2,834,165 | 2,716,783 |
| | 1,444,696 | 1,547,925 |
| Land | 12,954 | 12,954 |
| Total Property and Equipment | 1,457,650 | 1,560,879 |
| Totals | \$ 2,034,511 | \$ 2,171,885 |

The notes to the financial statements are
an integral part of these statements.

RURAL WATER DISTRICT NO. 3,
MARSHALL COUNTY, KANSAS
Beattie, Kansas

BALANCE SHEETS

| | <u>December 31,</u> | |
|--|---------------------|---------------------|
| | <u>2011</u> | <u>2010</u> |
| LIABILITIES AND FUND EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 8,300 | \$ 13,398 |
| Payroll taxes payable | 301 | 286 |
| Other taxes payable | 763 | 754 |
| Customer deposits | 2,438 | 1,607 |
| Accrued interest payable | 3,746 | 5,521 |
| Current portion of long-term obligations (Note 4) | 32,197 | 27,701 |
| Total Current Liabilities | <u>47,745</u> | <u>49,267</u> |
| | | |
| Long-term obligations, less current portion (Note 4) | <u>208,186</u> | <u>340,384</u> |
| | | |
| Fund Equity (Exhibit C) | | |
| Contributed capital, membership units, and retained earnings | 1,778,580 | 1,782,234 |
| Total Fund Equity | <u>1,778,580</u> | <u>1,782,234</u> |
| | | |
| Totals | <u>\$ 2,034,511</u> | <u>\$ 2,171,885</u> |

The notes to the financial statements are
an integral part of these statements.

**RURAL WATER DISTRICT NO. 3,
MARSHALL COUNTY, KANSAS**
Beattie, Kansas

STATEMENTS OF INCOME

| | For the Year Ended December 31, | |
|-------------------------------------|--|-------------------|
| | 2011 | 2010 |
| Operating Revenue | | |
| Water sales | \$ 300,523 | \$ 283,715 |
| Supplies sold | 8,954 | 7,057 |
| Refunds and insurance | 3,365 | 10,458 |
| Other | 5,694 | 6,018 |
| Total Operating Revenue | 318,536 | 307,247 |
| Operating Expenses | | |
| Salaries | 46,081 | 46,275 |
| Utilities and telephone | 40,173 | 40,927 |
| Repairs, maint., supplies | 47,326 | 42,409 |
| Transportation expenses | 10,699 | 8,395 |
| Taxes - payroll | 3,525 | 3,540 |
| Employee benefits | 29,657 | 25,596 |
| Taxes - other | 3,638 | 3,474 |
| Board expenses | 4,486 | 4,678 |
| Insurance | 13,443 | 13,287 |
| Annual meeting | 2,202 | 2,662 |
| Office supplies | 4,375 | 5,168 |
| Legal, audit, professional | 3,049 | 2,681 |
| Dues, fees, miscellaneous | 90 | 90 |
| Mileage | 1,314 | 1,343 |
| Depreciation | 117,382 | 114,906 |
| Total Operating Expenses | 327,441 | 315,433 |
| Operating Income | (8,905) | (8,185) |
| Other Income (Expense) | | |
| Interest income | 7,824 | 12,103 |
| Gain (loss) on sale of assets | 0 | 3,047 |
| Interest expense | (11,228) | (15,113) |
| Total Other Income (Expense) | (3,405) | 37 |
| Net Income (Loss) | \$ (12,309) | \$ (8,148) |

**RURAL WATER DISTRICT NO. 3,
MARSHALL COUNTY, KANSAS**
Beattie, Kansas

STATEMENTS OF CHANGES IN FUND EQUITY

| | For the Year Ended December 31, | |
|--------------------------------------|--|---------------------|
| | 2010 | 2009 |
| Balance, Beginning of Period | \$ 1,782,234 | \$ 1,780,762 |
| Sales and transfers of Benefit Units | 8,655 | 9,620 |
| Net income (Exhibit B) | (12,309) | (8,148) |
| Balance, End of Period | \$ 1,778,580 | \$ 1,782,234 |

The notes to the financial statements are
an integral part of these statements.

RURAL WATER DISTRICT NO. 3,
MARSHALL COUNTY, KANSAS
Beattie, Kansas

STATEMENTS OF CASH FLOWS

| | For the Year Ended December 31, | |
|---|------------------------------------|------------------|
| | 2011 | 2010 |
| Cash Flows from Operating Activities | | |
| Cash received from customers | \$ 302,101 | \$ 291,526 |
| Cash received from insurance proceeds | 3,294 | 10,338 |
| Cash paid to suppliers and others | (214,301) | (195,679) |
| Interest received | 9,103 | 13,753 |
| Interest paid | (13,004) | (16,969) |
| Net Cash Provided by Operating Activities | <u>87,193</u> | <u>102,969</u> |
| Cash Flows for Investing Activities | | |
| Purchase of property and equipment | (14,153) | (91,334) |
| Proceeds from sale of equipment | 0 | 0 |
| Redemption (purchase) of certificates of deposit | 43,167 | 96,978 |
| Net Cash Used in Investing Activities | <u>29,014</u> | <u>5,644</u> |
| Cash Flows for Financing Activities | | |
| Principal payments on loans | (127,701) | (123,737) |
| Borrowing of money | 0 | 0 |
| Restricted cash | 0 | 0 |
| Sale of benefit units | 8,655 | 9,620 |
| Net Cash Used in Financing Activities | <u>(119,046)</u> | <u>(114,117)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (2,840) | (5,504) |
| Cash and Cash Equivalents at Beginning of Year | <u>17,867</u> | <u>23,370</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 15,027</u> | <u>\$ 17,867</u> |

The notes to the financial statements are
an integral part of these statements.

RURAL WATER DISTRICT NO. 3,
MARSHALL COUNTY, KANSAS
Beattie, Kansas

STATEMENTS OF CASH FLOWS

Reconciliation of Net Income to
Net Cash Provided by Operating Activities

| | For the Year Ended | |
|---|--------------------|-------------------|
| | December 31, | |
| | 2011 | 2010 |
| Net Income - Exhibit B | \$ (12,309) | \$ (8,148) |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 117,382 | 114,906 |
| Loss on sale of assets | 0 | (3,047) |
| (Increase) Decrease in accounts receivable | (698) | 532 |
| (Increase) Decrease in interest receivable | 1,279 | 1,650 |
| (Increase) Decrease in prepaid expense | 0 | 0 |
| (Increase) Decrease in inventory | (12,443) | (5,916) |
| (Decrease) Increase in accounts payable | (5,098) | 5,226 |
| (Decrease) Increase in taxes payable | 24 | 122 |
| (Decrease) Increase in customer deposits | 831 | (500) |
| (Decrease) Increase in interest payable | (1,775) | (1,856) |
| Total Adjustments | 99,502 | 111,117 |
| Net Cash Provided by Operating Activities | \$ 87,193 | \$ 102,969 |

Supplemental Schedule of Noncash Investing Activities

There were no noncash investing activities.

The notes to the financial statements are
an integral part of these statements.

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Operations

Rural Water District No. 3, Marshall County, Kansas (the District) was organized under Kansas statutes for the purpose of providing a water supply system for landowners within the area of the District. The District is a quasi-municipal corporation governed by an elected seven-member board of directors.

B. Basis of Presentation

These financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ significantly from such estimates and assumptions.

D. Accounts Receivable

All accounts receivable as of December 31, 2011 and 2010 are considered collectable. The District uses the direct write-off method rather than maintain an allowance for doubtful accounts.

E. Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market, and consists of meters, pits, extensions, setters, watt regulators, s-bars, lids and rings, nuts, PVC, PVC primer and cement, pipes, couplers, bushings, valves, joints, valve lids, brass saddles, and PVC and galvanized caps.

F. Property and Equipment

Depreciation of property and equipment for financial statement purposes is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives generally used in computing depreciation are:

| | |
|---|-----------------------------------|
| | <u>Estimated Useful Lives</u> |
| Buildings | 33-40 years |
| Water transmission and distribution system | 33-40 years |
| Equipment | 6-20 years |

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

G. Cash equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

| | December 31 | |
|--|-------------|-----------|
| | 2011 | 2010 |
| Operating account, United Bank & Trust | \$ 15,027 | \$ 17,867 |

3. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the water district is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further its investment choices.

Concentration of credit risk. State statute place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except, during designated "peak periods" when required coverage is 50%. The District has not designated any "peak periods". All deposits were legally secured at December 31, 2011.

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

3. DEPOSITS AND INVESTMENTS (cont'd)

At December 31, 2011 and 2010, the carrying amount of the District's deposits including certificates of deposit, was \$430,407 and \$476,414, respectively. At December 31, 2011, the bank balance was \$451,596. The bank balances were held in two banks. Of the bank balance, \$385,241 was covered by federal depository insurance; \$66,355 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

Debt reserve – At December 31, 2011 and 2010, reserve accounts established with State of Kansas had balances of \$58,034 and \$58,034, respectively.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. At year-end the District had no investments (including repurchase agreements).

4. LONG-TERM DEBT

Following is a detailed listing of the District's long-term debt and changes in long-term debt for the year ended December 31, 2011:

Effective as of August 25, 2003, the District entered into a loan agreement with the Kansas Department of Health and Environment (KDHE) whereby funds of up to \$500,000 may be borrowed to be used for improvements to the water supply and distribution system. The loan agreement was amended during year 2004 to increase the loan amount to \$600,000. The interest rate on the loan is 3.60% per annum and is to be repaid over a 20 year period. The District has established a reserve account in accordance with the loan agreement. The loan agreement was amended during year 2007 to establish the loan amount at \$580,336.

Note payable to Ks Dept of Health and Environment: Date issued – November 3, 2004; Authorized amount - \$580,336; Interest rate – 3.60%; collateralized by the pledge of the revenues derived by the District through its rates and charges for water service; payable in semi-annual installments of principal and interest beginning February 1, 2006.

| | 2011 | 2010 |
|------------------------------------|-------------------|-------------------|
| Principal outstanding, January 1 | \$ 368,084 | \$ 491,821 |
| Additions to principal | 0 | 0 |
| Reductions of principal | (127,701) | (123,737) |
| Principal outstanding, December 31 | <u>\$ 240,383</u> | <u>\$ 368,084</u> |

RURAL WATER DISTRICT NO. 3
BEATTIE, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

4. LONG-TERM DEBT (cont'd)

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

| Year | KDHE Loans | | |
|-----------|-------------------|------------------|-------------------|
| | Principal Due | Interest Due | Total Due |
| 2012 | \$ 32,197 | \$ 8,508 | \$ 40,705 |
| 2013 | 33,509 | 7,196 | 40,705 |
| 2014 | 34,727 | 5,978 | 40,705 |
| 2015 | 35,988 | 4,717 | 40,705 |
| 2016 | 37,295 | 3,410 | 40,705 |
| 2017-2021 | 66,667 | 2,707 | 69,374 |
| Total | <u>\$ 240,383</u> | <u>\$ 32,516</u> | <u>\$ 272,899</u> |

5. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

No statutory violations noted.

6. DEFINED BENEFIT PENSION PLAN

Plan Description. The District contributes to the Kansas Public Employees Retirement System (KPERs), a cost sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERs provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 S Kansas, Suite 100, Topeka, KS 66603-3869) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERs member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERs is funded on an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERs employers. The employer rate established for calendar year 2011 is 7.74%. The District employer contributions to KPERs for the years ending December 31, 2011, 2010, and 2009 were \$2,928, \$2,933, and \$2,353, respectively, equal to the required contributions for each year.